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Comparison of Stock IPOs in China and the USA
Srovnání akciových primárních emisí v Číně a USA

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
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“Herewith I declare that I elaborated the entire thesis, including all annexes,
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1 Introduction

An initial public offering (IPO) is the first step for the company to go public. Once the company successfully issues IPO, it is a transformation from private into public. This means a milestone between the company's past and future.

With hundred years of development, IPO market has changed a lot among many countries and play a more and more fundamental role in the stock market. IPO not only means a big step for the company, but also takes a quite liquidity for the capital market and equity market. What's more, it is because of the existing of stock exchanges, individual and company have the platform to trade securities and get financing. IPO is important, so is the stock exchange

The objective of this thesis is to introduce what is the IPO and how a company issues an IPO then go public in detail. In the second chapter, I will firstly describe the reasons why a private company chooses to being public and analyze the advantages also the disadvantages about this transform. In the third and fourth chapters, since IPO has different process of developments and requirements in different countries, I choose China and the United States as the main research objects and talk about the situation of financial markets especially IPO market in recent three years within the two countries. Meanwhile, I will take Alibaba and Facebook as the examples to show how the company in two countries to issue IPOs and then go public. Moreover, in the last chapter, it will be the comparisons of the two financial markets about the different also the same performances of IPO market. What's more, you will also read the comparison of IPO's issuance process and main requirements of Hong Kong stock exchange and NASDAQ.

2 Principles of IPO in Financial Market

The financial market is a market where people can trade securities, commodities with lower transaction costs. Securities include bonds, stocks, currency and derivatives. For commodities, those include precious metals and agricultural produces. The “*market*” is usually treated as some exchanges or organizations which help trade the securities and commodities in more professional way, such as NYSE and Hong Kong stock exchange. These exchanges are the physical estate. But for NASDAQ, it is an electric system. The stock exchange is one of the vital part of the financial market, so does IPO. With the development of economics, IPO has changes and grown up a lot. In this chapter, I will introduce what is IPO and the largest IPO in history. Moreover, I am going to pay attention on the main process of how a company finish its initial public offering and then go public.

2.1 The Definition of IPO

The full name of the IPO is Initial Public Offering. It means the companies offer the securities to the public investors firstly through stock exchanges which mainly aim at raising funds for the need of the companies` development. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be issued by large privately-owned companies which are looking forward to trading publicly. Once the company successfully completes IPO, it means a private company transformed into a public one. Then the stocks can be freely traded in the second market.¹

¹ Source: <https://zh.wikipedia.org/wiki>

2.2 Largest IPO in History

The following table shows us the seven largest IPO in the world which are ranked by the market capitalizations.²

Table2.1 Largest IPO

Rank	Name of company	Time	Market capitalizations
1	Agricultural Bank of China	2010	\$22.1 billion
2	Alibaba Corporation	2014	\$21.8 billion
3	Industrial and Commercial Bank of China	2006	\$21.9 billion
4	American International Assurance	2010	\$20.5 billion
5	Visa Inc.	2008	\$19.7 billion
6	General Motors	2010	\$18.15 billion
7	Facebook	2012	\$16 billion

Source: https://baike.baidu/Initial_public_offering, author

From the table 2.1, we know that Agricultural Bank of China is still hold the largest IPO in the world for recent years. What's more, Alibaba completed the largest IPO in the USA's IPO history. It is a huge milestone proves that Chinese economy especially the financial market has been developing faster and more stable on the one hand. On the other hand, the rapid rise of China's Internet companies has gradually narrowed the gap with Silicon Valley companies.

² Source: https://baike.baidu/Initial_public_offering

2.3 Role of IPO

Going public and conducting an initial public offering represents a milestone for most private companies. As a consequence, it's necessary to know what kind of role the IPO plays in the process of going public. Next, I will focus on the advantages and disadvantages of going public. Then I will illustrate the process of IPO to show the IPO more deeply.

2.3.1 Advantages for Going Public

There exist a large number of reasons for a company to decide to go public. The main reason for companies to decide to go public is to raise funds through the public but not from the banking system. Because, it can reduce the cost of getting financing by making a company public and give the company an advantage when negotiates with banks about the interest rates. This can also reduce interest costs on existing debt the company might have. What's more, it can spread the risk of ownership among a large group of shareholders. Furthermore, there is the consideration that the original shareholders want to transfer part of their present shares into cash and look forward for more valuable of their shares, going public is the relevant priority way for them. Moreover, once the company is listed on the stock exchange and goes public, it has the chance to get huge prestige.

And there also have other advantages for the company including:

- Increase liquidity for the corporate's assets;
- Raise additional funds through the issuance of extra stock;
- A public company can use its benefit plans with the stock ownership rather than the high wages to attract the talent people;

2.3.2 Disadvantages for Going Public

- There are still some disadvantages existing after going public including:

- Expense;
- Loss of management control;
- Increased regulatory supervision;
- Mandatory reporting requirements;

Firstly, “Expense” means when a company chooses to go public, it is a relevant expensive step. There are many types of costs including fees of underwriting, lawyer, accountants and other advisers. The expenses of printing the prospectus and statement can also be part of the fees.

As for “*Loss of management control*”, it shows that once corporation goes public, managements can’t make decisions only by themselves, because they can’t have the absolute control over the compensates of the board of directors, even they hold a majority shares, the minority shareholders still have the rights in the decision.

Then, “*Increased regulatory supervision*” means once a private company is transformed into a public one, there will be more strict regulations by institutions such as SEC in USA or CSRC in China.

At the last one of “*Mandatory reporting requirements*”, a public company is required to disclosure every quarterly and annual reports about their business operations, financial condition and other internal information to the public.

2.4 Suitable Time for Going Public

There are two aspects for the company to choose a best time to go public. One is from external environment sector and another depends on the internal of the company.

External conditions

As we can know, the best time for a company choosing to go public is when the condition of the economy goes well. At that time, the investors have more confidence and chances to invest in a company, especially the new and unknown company. However, if it’s in a declining market, the market’s reflection on the new issuance will be low or even zero. So, a company should take the right time into consideration.

Internal conditions

As for the internal conditions from the company, according to the advice suggested by the president of the New York Stock Exchange and the experiences from Glenn Solomon, a partner with GGV capital, we can know some capacities the company should have before they decide to go public.

Firstly, the company should be ready for establishing an executive team. An excellent executive team is the brain of a company, so does in the IPO. It should be clear the structures of the team, roles and responsibilities among every member before the IPO. This will make the IPO process more sufficient. And a great leadership will give the investors more confidence in this new issuing.

Secondly, it's the market capitalization of the company. GREG argues that the greater the total market capitalization is, the greater the volume of transactions will be and the more stocks will be traded, meanwhile the smaller the stock price will fluctuate. This is very important for the performance of the company's stock price after going public. So, the company needs to expand their market capitalization as much as possible, such as get private equity before the IPO. Generally speaking, to successfully be listed in the United States or Hong Kong, the total capital market capitalization must reach 250 million US dollars.

Thirdly, the company is better to audit the financial statements in advance. Not only because the stock exchanges such as Hong Kong stock exchange, it requires three years audited statements before IPO. If you prepared well, it will increase the efficiency and costs in the IPO process. But also, as a public company, you will face more rigorous and regular periodic reviews. If you do an internal review in advance, you will save a lot of trouble later.

2.5 Process of IPO

The Initial Public Offering process is where a previously unlisted company sells new or existing securities and offers them to the public for the first time. After an IPO, the issuing company becomes a public listed company on a stock exchange. Thus, an

IPO is also usually called as “*going public*”³

Select Investment Banks

Investment banks are an intermediary with various financial functions. It can help the company issue the initial public offering even the follow-on offering. In the IPO process, it participants in the period from pre-underwriting counseling to the underwriting. What’s more, it can also account the company’s financial statements and then delivery a prospectus to investors. Some famous investment banks are Goldman Sachs, JPMorgan Chase and Credit Suisse.

There are some criteria on choosing an investment bank:

- Reputation;
- Industry expertise;
- Distribution capacities;

First of all, “*Reputation*” means if the investment banks with high reputation, it will not only have more professional teams more likely to hire high-quality auditors. And it can also attract more investors such as institutional investors.

For “*Industry expertise*”, it means it can be an extra advantage for an investment bank to have relevant knowledge about the valuation and standards in the industry of this on-going company.

“*Distribution capacities*” means an investment bank can provide underwriting of new stock issues and has the ability to find source of equity funding. Underwriting basically involves the investment bank purchasing a number of shares of the new stock which are settled in the agreement and then sold to the public through a stock exchange.

Hold the All-Hands Meeting

There are many participants involved in the IPO process, including company counsel, independent auditor, advisory accountant, investment banker, investment baker’s counsel. And in this meeting, all participants will get together to discuss about the offering, the required SEC registration forms, their respective responsibilities in the

³ Source: A publication from PwC Deals. Link: <https://www.pwc.com/us/iposervic>

registration statement and determining the timing for the filing.

In the process of IPO, there will be other several all-hands meetings to discuss and solve many other problems.

Prepare Registration Statement and Due-diligence

This part involves the company's managements, lawyers and independent accountants and other advisors. They should prepare the registration statement based on the SEC's requirements. The registration statement usually consists of two parts, including the most essential information in the prospectus, such as risk factors, use of proceeds, the company's business plan and the specified financial information required by SEC and the other information which not filled in the prospectus, such as the underwriting agreement and the fees connected with the issuance.

Through the process of the preparing registration statement, the whole IPO participants should make sure all the information involved in the statement is correct. They will review some important contracts, financial statements, tax returns, and other relevant data. At the same time, they will also analyze the performance of the company in its industry. The registration statement aims at ensuring investors to get as much adequate and reliable information as possible about the securities. The SEC will also carry out due-diligence to make sure that all the required details are real and correct. This step is usually regarded as due-diligence.

Filing with the SEC

In this part, many companies may have a pre-filing conference with the SEC to resolve the problems about the law or the business issues. And once the company makes sure that the statement is the final and completed one, they will send to the printer and then delivery to the SEC. It will need 30 days to wait for the SEC to review the statement and the company will get the comments from it.

Pre-Selling the Offering

Once the registration statement is filed and the team is working through revisions, the company can hold a Pre-offering meeting. It will not really offer the securities but meet with some institutional investors to communicate with them about the company

and its security. According to the feedback from the series of meetings and the teams' valuations, a price range of the offering will be set previously.

Then, the team will send the preliminary prospectus to the individual and institutional investors. The investors will get the information about the offering price, the amounts of the shares, underwriting commission and so on.

Roadshow

For potential investors to grasp deeper information about the company and the issuance, the investment bank will arrange meetings called roadshow.

In the roadshows, the company's president and some key managements will travel many countries to meet with the potential investors. They should well- prepared and answer the questions required by the investors. This process is extremely important, because the team can get the information about how many shares investors are willing to buy and what level of price they will pay. During this period, the team may change the price range and also the number of the offering according to the feedbacks.

Pricing

The company will sign the agreement with the underwriters and files the finally revised registration statement to SEC. Once the statement is approved by, the team will set the effective date and the precise offer price and the number of offering. Deciding the offer price is important because it not only influence the financing amount the company will receive, but also has a vital influence on the secondary market..

IPOs are often underpriced when the initial public offering price is obviously lower than the price when it is listed on the exchange.

Allocation and Trading

Once the stock price is determined, a company delivers the registered securities to the underwriter and receives payment. The investment banks will allocate shares to investors through the stock exchange Especially, banks will try to allocate to investors who will be long-term holders of the stock firstly and then the stock starts to allocate to the general public.

2.6 Important Information for IPO Assessment

There are some key data when assess the IPO market:

- IPO amount;
- Market capitalization;
- Yield;
- Volatility;
- P/E ratio;
- Financing structure;

“*IPO amount*” is the number of the new companies which apply for issuing their first offering. It’s usually used to show the condition and performance of the stock market. If the number of new shares increases this year, this indicates that the financial market has developed very well this year, and many companies have confidence in the market environment and choose to go public.

“*Market capitalization*” is usually used by investment banks to describe the size of the company. Many large-cup companies are usually established for a long time and develop stably and they are suit for long-term investment with relevantly low risk. At the time of listing, the greater the total market capitalization is, the greater the volume of trading and the smaller the stock price volatility will be. And market capitalization can also be called as market cup. Large-cup companies have the market capitalization over \$10 billion.

Formal: Market capitalization = $P \times Q$

where P is closing price and Q is total number of company’s outstanding shares. For example, if a company holds 1 million outstanding shares and the current price per share is \$5; its market capitalization is \$5 million.

“*Yield*” of a new listed company is the indicator about the return you invest in the securities. We can use two formulas to calculate the return. One is holding period return (HPR), another is annually holding period return.

Formula: $r_t = \frac{P_1 - P_0}{P_0}$,

$$r_{p.a} = \sqrt[n]{\frac{P_1}{P_0}} - 1,$$

where r_t is the rate of return for holding period, $r_{p.a}$ is the rate of return for annually holding period return. For an example, if you buy the stock at \$38 and the closing price is \$98, the holding period return of the IPO for you is 1.58. If you hold the stock for two years, you will get the annually holding period return about 0.61. It also shows the percentage of each dollar invested earning by the company.

If you have a set of annual rates of return (HPRs) for an investment, you can measure the mean annual return by arithmetic mean return (AM) and geometric mean return (GM).

$$\text{Formula: } AM = \frac{\text{Sum of individual returns}}{\text{Total number of returns}},$$

$$GM = \sqrt[n]{(1 + r_1) \times (1 + r_2) \times \dots \times (1 + r_n)} - 1,$$

where r_n is the rate of return at the last interval.

“Volatility” is the fluctuation of the stock price over a period. It can also be regarded as the risks of this stock. It can be calculated by the variance of returns and the standard deviation.

$$\text{Formula: } \sigma_{exp}^2 = \frac{\sum_{t=1}^T (r_t - r_A)^2}{T},$$

$$\sigma_{exp} = \sqrt{\sigma_{exp}^2}$$

where r_A is the average historical rate of return, T is the number of time period, σ_{exp} is the standard deviation and σ_{exp}^2 is the variance of returns.

“P/E ratio” is one of the most commonly used indicators to assess whether the stock price is reasonable. The high P/E ratio reflects the investor's confidence of the company's growth potential in some degree.

$$\text{Formula: } \frac{P}{E} \text{ ratio} = \frac{P}{EPS},$$

where P is the stock price and EPS is the annual earnings per share.

“Financing structure” means the different components of the financing. In the following content, you will see the analysis of the financing structure from various aspects, such as from an industry perspective. The other is from what kind of equities

the IPO is based on, such as VC-backed IPO and PE-backed IPO (BODIE, KANE, MARCUS, 2013).

3 IPOs in Financial Market in China

This part will firstly briefly describe the overview of IPO market in China and show how the IPO market performed in the last three years. In the end of this part, I will take Alibaba as a significant example to show how a company has an initial public offering and goes public in China.

3.1 Overview of IPO Market in China

There exist three main stock exchanges in China including Shanghai Stock Exchange, Shenzhen Stock Exchange and Hong Kong Stock Exchange. Those stock exchange witness how the China's financial market has been developing.

3.1.1 Nine Suspensions of IPO

In A-share's history, China's IPO has experienced nine times of suspensions and restarts. In the overall, the impact of the restart of new stocks on the Shanghai Composite Index was negative, but the impact was limited. The IPO suspensions were positive. In the nine suspensions, the market mostly welcomed a substantial increase, but with only a slight drop in July 1995, July 2001 and August 2004 and the decline was less than 15%. Most of the largest number of rest during the suspensions increased more than 50%. After nine IPOs were restarted, only in 1996-2001 and 2006-2008, there was a sharp rise in the bull market in 2014, and the rest of the period was a drop of about 10-20%. Before and after the IPO was restarted or suspended, the market mostly continued the trend before the change, but the IPO is not a turning point sign for the market, but it is an accelerator for the market to rise or fall.

3.1.2 Main Financing Market for IPO

At present, Chinese companies need to conduct IPO financing mainly in the following ways: the domestic main board market including small and medium-sized

board market, GEM, Hong Kong GEM, overseas GEM and other financing markets.

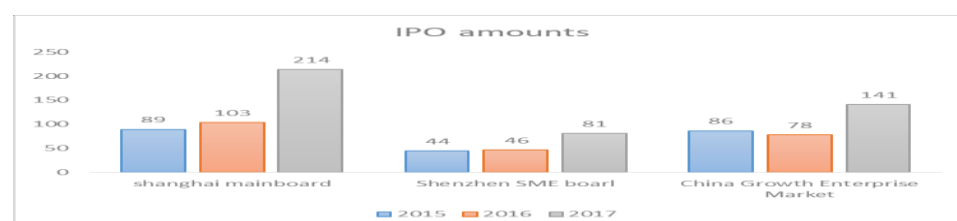
The Importance of China's GEM

In 2009, China officially launched the GEM which had been prepared for 10 years. This weds a major innovation in China's capital market and marks a solid step forward in the construction of China's multilevel capital market system. China's securities market was established during a specific historical period, so it is inevitable that the system would have historical imprints. With the development of the financial market, the defects designed in the previous system are constantly exposed, and many problems are obviously hard to return. China's main board market has already formed an inherent institutional system due to its own development mechanism and some historical issues. All systems have a high degree of interdependence, which can be described as affecting the whole body. Therefore, in China's main board market, it is difficult to carry out effective institutional innovation.

But for the GEM, because of no historical burden, it can learn the experience of the main board market. At the same time, due to the increasing convergence between the financial system and the international market, China's GEM's rule design also draws on the advanced experience of many internationally developed markets and continues to promote institutional innovation through an efficient market operation mechanism, then applies these sophisticated and advanced systems on GEM market, thus promoting the institutional improvement of China's financing market.

3.2 China's IPO Market in Recent Three Years

Chart 3.1 the amounts of IPO in last three years in mainland China in 2015 to 2107



Source: China Securities Regulatory Commissioner, Deloitte Analysis, author

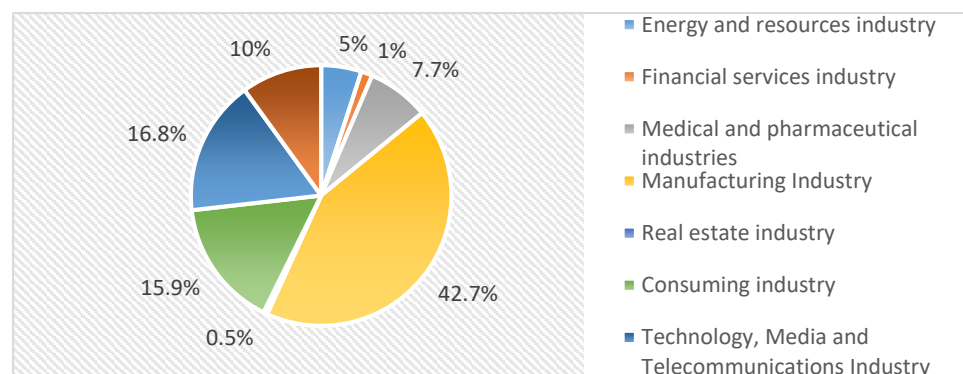
From the chart 3.1, we obviously know the IPO's amounts of three main board in

recent three years. From the whole tendency, it shows us that the number of IPO in recent three years has been on a rising trend and the overall situation is good. I will carefully analyze the development of the IPO market in Mainland China and Hong Kong over the past three years from various aspects.

3.2.1 Reviewing IPO Market in Mainland in 2015

In the first half of 2015, with the speed of listing review and the strong capital market driving the listing activities, the number of listed companies on the Shenzhen Stock Exchange was promoted to be No. 1 in the world, and the amount of funds raised by the Shanghai Stock Exchange ranked No. 2 in the world. In early July, the China Securities Regulatory Commission suspended the IPO again due to the large market volatility and launched a series of measures to maintain stability. In November, the market stabilized and the China Securities Regulatory Commission announced the completion of the new share issuance system and restarted the issuance of new shares. According to the statistics of the Ernst & Young report, there were 219 IPO transactions in the A-share market in 2015, totaling RMB 158.6 billion. Compared with 2014, the number of IPOs and the amount of financing increased by 75% and 102%, respectively.

Chart 3.2 IPO industry divisions (by quantity) in mainland China in 2015

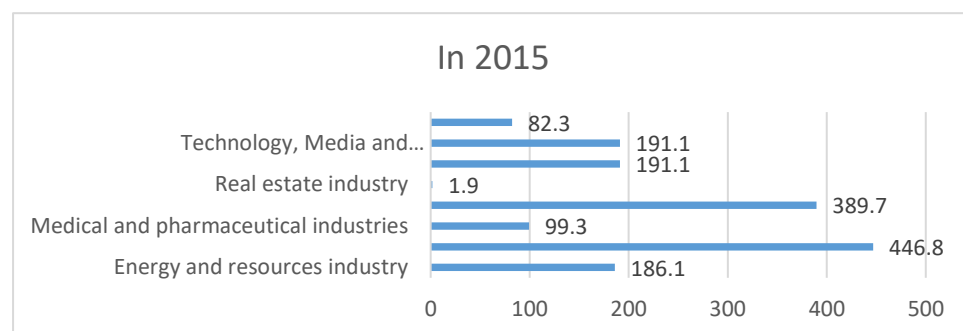


Source: China Securities Regulatory Commissioner; Deloitte Analysis, author

In terms of industry, according to the number of listed IPOs, industries such as technology, media, and telecommunications are the most active, ranking first and

second in IPOs respectively, accounting for 34% and 20% of IPOs. Those development mainly due to the government's emphasis on "Internet +" and "Made in China 2025." ⁴

Chart 3.3 IPO industry divisions (by financing amount) in mainland China



Source: China Securities Regulatory Commissioner, Deloitte Analysis, author

In terms of the industry and according to its financing amount, led by large brokerages, the financial industry ranked first in the amount of new shares, with RMB 44.7 billion accounting for 28% of the total IPO funding, a sharp rise from 8.9% in the same period in 2014

3.2.2 Reviewing IPO Market in Hong Kong in 2015

In 2015, the IPO market in Hong Kong achieved outstanding performance. The number of listed companies reached a record high, and the amount of funds raised was the highest in the past five years. A total of 121 companies in the Hong Kong market were initially listed, raising a total of HK\$261.4 billion. Compared with the same period in 2014, the number of IPOs increased by 11% and the amount of funding raised by 12%. The above results have made Hong Kong Stock Exchange once again became the global "*Funding King*."

At the same time, the number of newly-listed companies in Hong Kong's Growth Enterprise Market increased significantly in 2015. There were 34 IPOs on the Growth Enterprise Market, and the amount of funds raised was HK\$274 million. The number

⁴ Source: China Securities Regulatory Commissioner, Deloitte Analysis

of listed companies was the largest since 2003, and the amount of funding had increased by 27% compared to 2014. The number of GEM boards transferred to the board of directors reached 14, which was the highest due to the simplified switch request in 2008. The top three industries of companies in the mainboard are technology, media and telecommunications, as well as consumer.

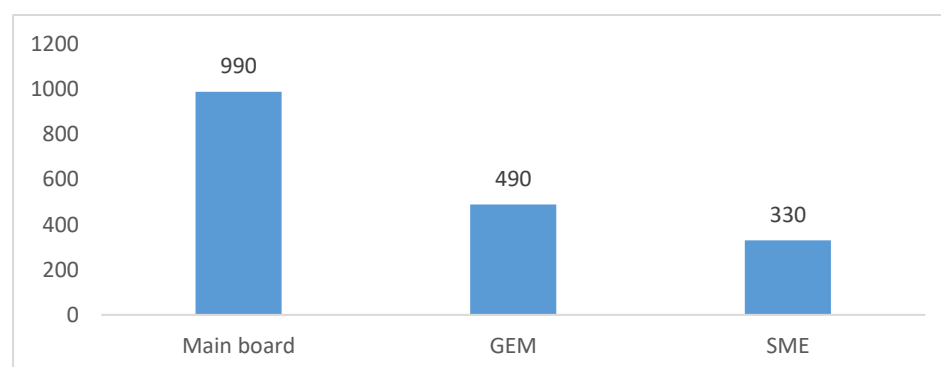
In terms of the number of IPOs by industry in 2015 indicates that the real estate industry is leading, followed by the technology, media and consumer industries. In terms of the industry and according to its financing amount, the amount of financing from the financial services industry is outshone, and the amount of financing from other industries were significantly thrown away.

3.2.3 Reviewing IPO Market in Mainland in 2016

In December 31, 2016, 272 new shares were traded, of which 248 had been approved, 4 were cancelled, 18 were not passed, and 2 were suspended. A total of 731 companies had applied for listing on the Shanghai Main Board, Shenzhen SME Board and GEM. Of these, 50 were suspended for review. At the same time, 681 active applications were being processed. Meanwhile, 44 had already passed the trial and were waiting for the listing.

The issue of high P/E ratio had eased. The P/E ratio of 182 IPO projects was between 20-40 times, a decrease of 3% from 2015 and P/E ratio of 38 IPO were between 10-20 times, which was similar to 2015. The 7 IPO's P/E ratio were below 10 times, which was an increase of 3 percentage points over 2015, mainly for bank shares. The highest P/E ratio for 2016 was only 22.99, and the difference between the new shares was small. The average return on the first day of the listing of new shares was 44%. Since the A-shares required the first day of new stocks to rise by no more than 44%, there was no significant difference in return on the first day of new shares.

Table 3.4 Analysis of the financing scale of the IPO market in 2016



Source: China Securities Regulatory Commissioner; Deloitte Analysis, author

According to the analysis of the financing scale of the IPO market, the average financing scales of the main board and SME board had increased compared with last year, except for the GEM. Among them, the average financing scale of the main board was RMB990 million, compared with the scale of the previous year was RMB940 million. The SME board and GEM were RMB490 million and RMB330 million respectively, compared with RMB440 million and RMB370 million in the same period last year.

In terms of quantity, the manufacturing industry still dominates, followed by the technology, media and telecommunications industries. However, the proportion of the former decreased, while the latter increased. According to the financing amount analysis, the amount of financing in the financial industry was slightly ahead of the manufacturing industry, mainly due to three large-scale IPO financing, including Shanghai Bank, Jiangsu Bank, and Huaan Securities. The amount of financing on a very large scale was far less than the level of the same period of last year. Except the above three new shares, there were no other large-scale new share offerings of more than 5 billion yuan.

3.2.4 Reviewing IPO Market in Hong Kong in 2016

In 2016, Hong Kong's new stock market achieved the highest amount of global new equity financing this year, the number of new shares on the GEM and the amount

of financing reached the highest since 2002, the number of international companies listed in Hong Kong hit a record high, and the ratio of local new shares hit a new high in the past five years. The application for the ShangYu case broke new ground in history of China and was the world's largest new share. It completed the listing of the highest-revenue Chinese technology IPO since 2007, when Alibaba was listed.

Although the “best” is welcome, it does not mean that the performance of the new stock market in Hong Kong is perfect. In fact, compared to 2015, the number and size of super-large and large-scale new stocks had been lowered. It had been listed 124 companies with the financing of 262.1 billion Hong Kong dollars in 2015. Compared with 2016, a total of 120 companies had reached an IPO of 194.7 billion Hong Kong dollars, which was a decrease of 3% and 25% respectively. The scale of other new shares was reduced.

Specifically, in 2016, the top five IPOs in Hong Kong remained the same as the financial services industry mainly. The financing scale narrowed by 11% compared with HK\$122.3 billion in 2015, and it was only 108.9 billion. The number of cases applied for in Hong Kong stock exchange in 2016 rose sharply, increased 22% than in 2015.

In terms of financing scale, super-large IPO financing in Hong Kong's new shares in 2016, accounted for about 70% of total financing for the whole year, which was higher than in the past few years. The average financing scale of the main board reached HK\$880 million, compared with 2015, it fell by 27% due to fluctuations in the market due to multiple uncertainties, retail investors in Hong Kong had deterred new shares, which had resulted in only 38% of IPOs being priced higher than the midpoint of the price range in 2016, which was 2% lower than the same period in 2015.

From an industry point of view, consuming and real estate industries in the new stock market was far ahead of the rest, and the technology, media, and telecommunications industries were at the following rank. However, the amount of financing was still the highest investment in the financial industry, especially from mainland in China.

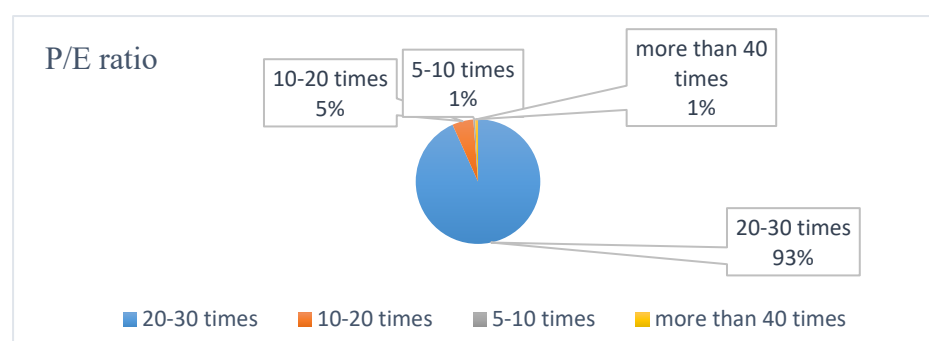
It could be said that Hong Kong took the top position in the global new stock market in 2016, mainly due to the listing of several large Chinese financial new stocks. At the same time, due to the uncertainties of the economic outlook of many countries, the IPOs in other overseas stock exchanges had slowed down. Together with the influence of the U.S. presidential election on new U.S. stocks, various political and economic factors. However, the impact of the Fed's rate hike cycle, China's economic slowdown, and pressures of RMB depreciation had affected the performance and financing capabilities of Hong Kong's IPOs. They had faced tremendous pressure in attracting large IPOs to Hong Kong.

3.2.5 Reviewing IPO Market in Mainland in 2017

In 2017, the issuance of new shares in mainland China continued to grow steadily. The market performance was mainly benefited from the stable issuance of new shares, increasing the rhythm of the issuance and the stabilization of prices. In 2017, a total of 436 new shares were issued, an increase of 92% over the previous year. A total of 230.4 billion yuan was raised, an increase of 53% over the previous year. The mainland China's new stock market started to pick up in the second half of 2016. It began to slow down slightly in the second half of 2017, and the new stocks were kept regular speed of listing throughout the year. As of December 15, 2017, 465 new shares were traded, of which 374 were approved, 6 were cancelled, 78 were not passed, and 7 were suspended.

According to the analysis of IPO market financing scale, the average financing size of GEM and SME Boards was higher than that of the same period of last year except for the main board; the average financing scale of the Main Board was RMB640 million, which was RMB1.01 billion in the same period of last year. The SME board and GEM were RMB 500 million and RMB 370 million respectively, which were RMB 490 million and RMB 330 million respectively during the same period last year.

Chart 3.5 P/E ratio of new issuances in 2107



Source: China Securities Regulatory Commissioner; Deloitte Analysis, author

The high price-earnings ratio problem had eased. The 93.3% IPO projects had a P/E ratio of 20 to 30 times, an increase of 13% from 2016. The 5.5% IPO projects had a P/E ratio of 10 to 20 times, which was 11% lower than 2016. The 0.5% IPO projects ratio of 5 to 10 times, which was a 2% decrease from 2016. The 0.7% IPO projects had a P/E ratio of more than 40 times, which was new for this period. The annual maximum price-to-earnings ratio for 2017 was 556.25 (silver colored), and the differences between other new stocks were small.

Analyzing the principle of IPO industry by quantity, the manufacturing industry still dominated, followed by the consumer and technology, media and telecommunications industries, the proportion of manufacturing and consumer industries increased compared to the same period of last year, and the proportion of technology industries declined slightly. Analysis of IPO industry according to the principle of financing, the amount of financing from the manufacturing industry was far ahead. Analyzing the principle of IPO industry by financing amount, the amount and proportion of financing from the financial industry have been reduced. Instead, the TMT industry has come from behind.

Since 2017, IPO companies from the issuance of applications to the completion of the listing, the average review cycle was about 3 months and a year. Compared with before, the audit cycle required more than 3 years significantly shortened, direct financing efficiency had improved significantly. IPO's normalized issuance laid a good foundation for the reform and improvement of the stock system to be issued next.

3.2.6 Reviewing IPO market in Hong Kong in 2017

In 2017, a total of 161 new shares were listed in Hong Kong, up 34% over the same period. And the number of new shares in the IPO market and GEM were all new highs over the years. However, the total financing amounted to HK\$128.2 billion, a decrease of 34% over the same period. Among them, five IPOs financing reached HK\$59.1 billion. In 2017, the Hong Kong Stock Exchange received 246 listing applications, including the Main Board and the Growth Enterprise Market, which increased by 14% over the same period. There were 157 applications received and being processed. Eight cases were rejected and 14 cases were withdrawn on their own.

Compared with the new stock market last year, the number of Hong Kong companies had accounted for half of the new stock market this year. The trend of overseas companies listing in Hong Kong had strengthened and the P/E ratio of new shares had risen. About 32% of the new shares were from mainland China, and mainland companies' new shares raised funds of HK\$100.5 billion, which accounted for about 78% of the total new equity financing in the market. In 2017, there were 30 overseas companies listed in Hong Kong, with a financing amount of approximately HK\$12.3 billion, an increase of 14% over the same period of last year. Last year, only 10 overseas companies were listed in Hong Kong with a financing amount of approximately HK\$10.8 billion.

In terms of P/E ratio, about 25% of new shares were listed at a P/E of 10-29 times, which was 11% lower than last year's 37%. The IPO with a P/E ratio of 20-30 times accounted for 19%, which was 6 percentage points higher than last year. More than 40 times the listed P/E ratio of new shares reached 16%, compared to the last year, it was an increase of 7 percentage points.

Although in 2017, the top five new shares were still concentrated in the financial services industry; the financing amount only reached HK\$59.1 billion, a significant drop of 46% from last year's HK\$108.9 billion.

With regard to the industry analysis of the number of new shares, the proportion

of the real estate industry had increased, further surpassing the consumer industry. For the industry analysis of the new share financing, the amount and proportion of financing from the financial industry had been reduced. On the contrary, the TMT industry had come from behind.

3.3 Expectations of China's IPO Market in 2018

I will focus on the IPO amount and the outstanding industry in financing funds to have an expectation on the IPO market in mainland China and Hong Kong in 2018.

3.3.1 Expectations of Mainland's IPO Market in 2018

In 2018, it is expected that the financial industry will continue to take the initiative to prevent and resolve systemic risks. The teeth of regulatory agencies will be more “sharp”, supervision will be more stringent, standards will be higher, and penalties for violations of laws and regulations will also increase.

In 2018, it is expected that the issuance of A-share IPOs will remain stable, with about 320-380 new shares and financing of about RMB 170-200 billion. Currently, 27 companies that have passed the auditing committee are waiting for the listing. The proportions of traditional and high-end manufacturing industries (48%) and retail and consumer industries (18%) are the largest according to the 2017 approval and issuance speed, and they are expected to be completely digested in January 2018. The small and medium-sized manufacturing and technology industries will still be leading in number of releases

3.3.2 Expectations of Hong Kong's IPO Market in 2018

The competitiveness of Hong Kong’s new stock market is continuously increasing. The promotion of two projects in the Guangdong, Hong Kong, and Macau Grand Bay Area and the Lok Ma Chau Loop area will help nurture and develop new economic and high-growth enterprises and will take the opportunity to introduce more funds into the

market. Newer economic and innovative companies have also indicated that they will consider coming to Hong Kong. The "One Belt and One Road" policy and the valuation of some industries in Hong Kong are ideal. This has led overseas SMEs, especially those from Southeast Asia, to continue to apply to visit Hong Kong. The government is about to broaden the listing system in Hong Kong, including allowing different voting rights structure companies and unprofitable companies to come to Hong Kong, and will conduct formal market consultation in the first quarter of next year. The positive response in the market will help to formulate relevant mechanisms in the future.

In 2018, the new stock market in Hong Kong will be still driven by finance, technology and medical care. Some of the new markets have attracted the attention of the new economy. It allows emerging and innovative industrial companies with different shareholding structures and biotech companies that have no profitability/income to come to Hong Kong. Meanwhile, allowing the issuers of emerging and innovative industries to have second chance to be listed in Hong Kong will all bring new issues to Hong Kong's new stock market. With the exception of individual new shares, the majority of new shares are financed by small and medium-sized companies, and the average funding size is adjusted downwards.

3.4 Example of IPO in China

The following is an illustrative example of how a Chinese company chooses to make its initial public offering and the process of its going public.

3.4.1 Introduction of Alibaba

I will take a typical example of IPO, Alibaba. From what I have known, it's necessary for the investors to grasp some basic knowledge about the situation of the corporations which are going public. As a result, I will briefly introduce Alibaba. It was established in 1999s and the world's leading small business e-commerce Company and the flagship business of Alibaba Group. Alibaba is helping millions of sellers and suppliers around the world through their three markets. The three online marketplaces

include an international trading marketplace focused on global importers and exporters, a Chinese trading market focusing on domestic trade, and a Japanese trading market promoting the exports and domestic sales through an affiliate company. In addition, Alibaba also has a global wholesale trading platform in the international trading market to serve buyers who are small and require fast shipping of small quantities.⁵

3.4.2 Two Experiences of Going Public

From the development of Alibaba, we know there were two experiences to go public. In the following, I will introduce those two experiences.

The First Time Going Public in Hong Kong.

On November 6th, 2007s, Alibaba B2B business was listed on the Hong Kong Main Board, its issue price was 13.5 Hong Kong dollars and the listing opening price was 30 Hong Kong dollars. Finally, it financed about 1.5 billion dollars. In that time, the market value of this company was about 68.207 billion Hong Kong dollars (about 8.8 billion US dollars). But in February, 2012s, Alibaba Group announced its offer of privatization to its Alibaba B2B board, a Hong Kong-listed subsidiary.

On the one hand, Alibaba B2B company stock price downturn was a good time for major shareholder to repurchase the shares but it also means the price of its stocks were undervalued. On the other hand, Jack Ma launched strategy of Big Taobao. The purpose was to get through the B2B2C channel, thus forming the full chain from production to consumers. But due to the limits caused by the B2B Company's public company structure, this plan couldn't be fully implemented. Besides, during the strategic transformation and upgrading of the Group, it was an opportunity for minority shareholders to realize their investment returns. Because, the strategic transformation would likely lead to a slowdown in revenue growth in the short to medium term which would affect the earnings forecasts. Finally, in June 20th, 2012, Ali's B2B listed companies completely delisted from the Hong Kong stock market. Until then, Alibaba's

⁵ Source: <https://baike.so.com/doc>

first period of going public was terminate.

Second Time to Be Listed on New York Exchange Stock

The second time was more complex and well-known. It had two choices for Alibaba to go public. One was listed on Hong Kong stock exchange and another was on New York stock exchange.

In the beginning, I want to pay attention on why Alibaba chose to be listed on Hong Kong but it failed. There might be several reasons in the following. On the one aspect, we need to know why Alibaba chose to be listed on Hong Kong stock exchange in the very beginning. Firstly, according to its agreement with Yahoo, it stated that if Alibaba repurchased part of the remaining shares held by Yahoo, it must be listed before December 2015. However, the procedures for listing in the domestic A-share market were very tedious and the review process was very slow. This would greatly slow Alibaba's listing speed and make it difficult for Alibaba to be listed before 2015.

In addition, the domestic A-share market was still not a completely internationalized market, and there were many restrictions on foreign-invested transactions, which was not conducive to the future development trend of Alibaba Group's internationalization. What's more, the domestic stock market had been in a depressed state since the end of 2007, and the overall market valuation was low.

In foreign countries, the relative US market had remained strong since it emerged from the economic crisis, and from the overall valuation level of listed companies on the Internet, the US market was also relatively high, which reflecting the different understanding of the new economy between the United States investors and mainland investors. Due to these complicated factors and Alibaba's need for future development, the domestic A-share market had not been chosen.

However, there was a huge gap between the Alibaba and Hong Kong stock exchange which was the pattern of equity distribution restricted by the Securities and Exchange Commission of Hong Kong. It only allows the company which the pattern is "the same shares with the same rights", that is each share had one and only one vote.

On the contrary, Alibaba's system is partnership. In the usual sense, the partner

system refers to a natural person or legal entity that invests in partnerships with its assets, participates in partnerships, and shares the income from the company's operations, and bears unlimited or limited liability for corporate debts. But Alibaba's partner system is relevantly different. The essence is that Alibaba's substantial shareholders set up a special clause concerning directing nomination rights to prevent the controlling rights from falling into others. That is becoming a director of Alibaba Group must pass the nomination pre-arrangement procedure of partners, which guarantees the partners can control the board of directors. The directors of the group must be individuals recognized by the partners.

At the same time, the influence of ordinary shareholders on the company is very weak. Obviously, this kind of "dual ownership structure" is contrary to the rules of the Hong Kong stock exchange. As a result, if the founders like Jack Ma want to control this company and have the absolute rights on the company's prospects of development and business activities, they cannot choose to be listed in Hong Kong. Ultimately, Alibaba embarked on the road to go public on the United States.

3.4.3 IPO Process

Then I will introduce the processes how Alibaba successfully went public on New York stock exchange.

Chose the Insurance Banking and Underwriting

In general, IPOs require a leading agency to control the underwriting process. Sometimes this is even a top priority for hiring a syndicated bank. For example, Facebook hired Morgan Stanley as the lead, and Twitter hired Goldman Sachs. However, Alibaba decided not to set up such a lead agency and replaced it with all major bookkeeping firms.

In order to ensure the success of underwriting, Alibaba commissioned six bookkeeping firms to work in groups of two, with Credit Suisse and Citigroup, Goldman Sachs and Deutsche Bank, Morgan Stanley and JP Morgan Chase. The entire

syndicate was divided into three levels. The six underwriters constituted the first level. Other eight banks formed the second level. They were hired to participate in the analysts' meeting and have provided analysis for the valuation of Alibaba. The bank would help sell Alibaba's stock. Rothschild, an independent equity consulting firm, does not participate in underwriting, but advises Alibaba as an independent consultant and acts as a middleman between Alibaba and the underwriters.

Submitted an IPO Prospectus to the SEC

On May 7, 2014, Alibaba submitted an IPO prospectus to the US Securities and Exchange Commission (SEC) and proposed to raise one billion U.S. dollars. The prospectus includes Alibaba Group's business philosophy, business introduction, main operational data, analysis of future markets, advantages of company, partners' relationships, future risks and uncertainties, company history and architecture. Before the formal IPO, Alibaba revised the prospectus five times. According to the requirements of the Securities and Exchange Commission (SEC), each version of the prospectus was based on the previous version to disclose certain details.

Roadshow

In the process of its IPO, the attractive part is the roadshow. Two roadshow teams made up of executives were called the Red Team and the Orange Team. Orange and red are the main corporate colors of Alibaba. The Orange team was led by Group Executive Vice Chairman and Chief Executive Officer. The Red Team was headed by Chief Financial Officer and Chief Operating Officer. In New York, executives met with capital management giants such as BlackRock and Oppenheimer. They traveled to Boston and met with major mutual fund managers such as Fidelity and Wellington Management. After that, the two teams rushed to all parts of the United States - including Baltimore, Denver, and San Francisco. Then they went to other countries and regions, including London, the Middle East, Singapore, and Hong Kong. According to the report, Alibaba hold road shows for nearly 10 days in an attempt to attract demand for this record-breaking IPO.

The company planned to sell 21.1 billion U.S. dollars' worth of shares in the IPO

with a valuation of 162.7 billion U.S. dollars after the roadshow. This would also make Alibaba become the third largest Internet Company listed in the United States, second only to Google and Facebook. Grace Su, a technology industry analyst at Clear Bridge, said: "For companies with very strong growth prospects, the market can use the roadshow to solicit management's views on future growth rates."

Successfully Landed on NYSE

At 9:45 p.m. Beijing time on September 19, 2014, Alibaba Group officially landed on the New York Stock Exchange for a listing transaction with the stock code BABA and the issue price was US\$68 per share. After ten rounds of inquiry after 2 hours and 24 minutes of listing, Alibaba's opening price was US\$92.7, a 36.3% increase over the issue price of US\$68. Alibaba had a market value of US\$238.3 billion.

3.4.4 Evaluation of Alibaba's IPO

Alibaba's IPO was the biggest in history, raising a record-smashing \$25bn after a first-day surge in share price prompted underwriters to sell more shares. After shares that had been priced at \$68 jumped as high as \$99.70 during the Chinese e-commerce giant's first day of trading on the New York Stock Exchange, some of Alibaba's major shareholders reportedly exercised an option to sell an additional 48m shares. The extra sale generated a supplementary \$1.8bn for Alibaba and \$1.2bn for Yahoo, according to Reuters - and made Alibaba the largest flotation of all time, trumping the Agricultural Bank of China's \$22.1bn raised in 2010.

According to the chart 3.6, we can know that the whole tendency of the stock price is approximately increasing, the fluctuation is relatively large. Now, in April 23th, 2018, the stock price hit \$177.16 per share.

Chart 3.6 Changes of the stock prices from the IPO to today.



Source: <http://www.macrotrends.net/stocks/charts/BABA/prices>

Just like MKM managing director Rob Sanderson used to say, “We continue to rank Alibaba our top pick among Internet mega-caps and think the company has the best fundamentals of the group”. Alibaba is a company with broad prospects for development. It has brought rapid progress and changes to the Chinese consumer market and even the world.

4 IPOs in Financial Markets in the USA

In this chapter, firstly, I will shortly describe the overview of IPO market in U.S. What's matter, I will pay more attention on the IPO market in recent three years to figure out the status of the financial market in the USA. Finally, I will take an example about how an American company completed its initial public offering and then went public.

4.1 Overview of IPO Market in USA

For many years, the United States have a huge and stable IPO market that produced a steady supply of newly public firms and allowed millions of investors to participate in the value creation generated by those firms. Many foreign companies chose to go public in the United States, which gave US investors global investment options to diversify portfolios. For some foreign companies, an IPO in the United States enabled them to expand their funding sources and take advantage of a lower cost of capital compared to their domestic markets.

4.1.1 Status of IPO Market in USA

In the past 15 years, the reduction in initial public offerings has been significant. For example, since 2000, the average number of IPOs per year has fallen below 45% of the average annual IPO in the 1990s. The sharp drop in the number of initial public offerings in the United States was mainly due to the disappearance of small IPOs. In fact, some of the most iconic and innovative American companies, such as Apple, Cisco and Genentech, have entered the open market with small IPOs. This trend reversed in the 2000s. IPOs with less than \$30 million in revenue accounted for only 10% of all IPOs in 2000-2015. In contrast, large IPOs grew from 13% in the 1990s to 45% of all IPOs thereafter.

Although IPOs in U.S. are down from their peak in the 1990s, but companies conducting an IPO in U.S. today are raising more money than ever before, and more

foreign companies executing cross-border listings choose to list in the US, compared with anywhere else in the world. Although there are fewer offerings, today's US IPOs are fundamentally more stable and has strong attraction of capital.

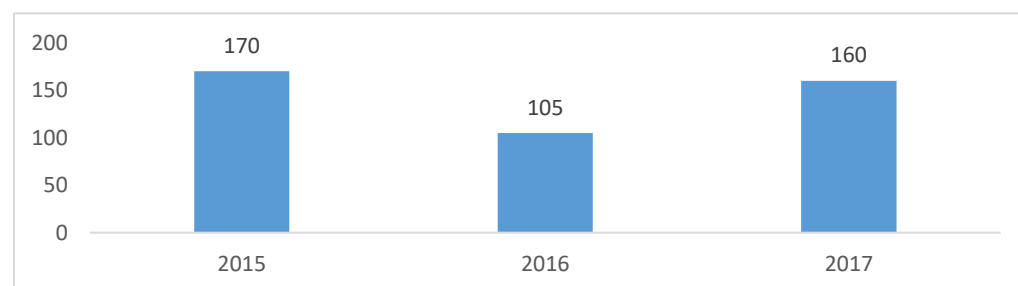
4.1.2 Main Financing Market for IPO in USA

There exist three stock exchanges in U.S., including New York Stock Exchange, American Stock Exchange, Over-the-Counter and NASDAQ. The American Stock Exchange is a place where small and medium enterprise stocks are listed.

The New York Stock Exchange has a history of all 2,050 years. There are currently about 2,920 stocks, including most of the long-established Fortune 500 companies. The total value of stocks is up to seven trillion US dollars. Some large U.S. companies choose to list their shares here at the beginning of the company's founding. Over-the-Counter (OTC) is a place for trading unlisted stocks, bonds, and other securities. Each buyer or seller negotiates and negotiates for the sale of shares. NASDAQ is a computer system designed to provide quotes for stocks in the stock market. About 5,540 large, medium and small companies in the United States are listed on NASDAQ.

4.2 USA's IPO Market in Recent Three Years

Chart 4.1 Numbers of IPOs in the United States from 2015 to 2017



Source: The Statistics Portal, author

This chart shows the numbers of IPOs in the USA from 2015 to 2017. There were 160 IPOs of companies with market capitalization above 50 million U.S. dollars in 2017. Meanwhile, there were 170 IPOs and 105 IPOs in 2015 and 2017 respectively. In the

following, I will analyze the details of the U.S. IPO market from several aspects over the past three years, such as the number of IPOs, the amount of financing, and the IPO industry structure.

4.2.1 Reviewing IPO Market in the USA in 2015

Without a large-scale deal, the ten largest IPOs raised only \$9.9 billion in 2015, which was the lowest since 2005. Just three of them raised over \$1 billion, but still decreased from 11 companies in 2014.

Table 4.1 Key statistics of IPO

Numbers of deals	170
Median deal size	\$93.8 million
Proceeds raised	\$30 billion
PE-backed IPO	39
Proceeds of PE-backed IPO	\$11.3 billion
VC-backed IPO	85
Proceeds of VC-backed IPO	\$8.9 billion

Source: <http://www.renaissancecapital.com>, author

In 2015, IPO activity dropped dramatically, there were only 170 IPOs and raised \$30 billion, the lowest amount was \$22 billion in 2009. The median deal size was \$94 million, which is the lowest nominal amount since 2004. As for the component of IPO market, there were only 39 deals backed by private equity and 85 deals backed by venture capital, which were the entire decline referred to the same period in 2014.

Table 4.2 Analyze the sectors of IPO

Sector	Deals amount	Proceeds of IPO	% of IPOs
Health Care	78	\$6.7 billion	46%
Energy	12	\$5.5 billion	7%

Financial	23	\$5.1 billion	14%
Technology	24	\$4.3 billion	14%
Consumer	15	\$3.4 billion	9%
Capital goods	7	\$61.8 billion	4%
Business service	2	\$1.3 billion	2%
Materials	4	\$1.1 billion	2%
Transportation	3	\$0.7 billion	2%
Communications	1	\$0.1 billion	1%

Source: Renaissance Capital, author

We can read from the table, in terms of the industry of IPO, we obviously know that the health care took the majority share of IPO market at a level of 46%. It was an increase from 37% in 2014 which was huge influenced by heightened biotech activity. However, as for the other sectors, they all had a decline from the last year respectively expect the IPOs of consumer, such as deals of energy was decreased about 60% and technology was decreased about 56% compared with last year.

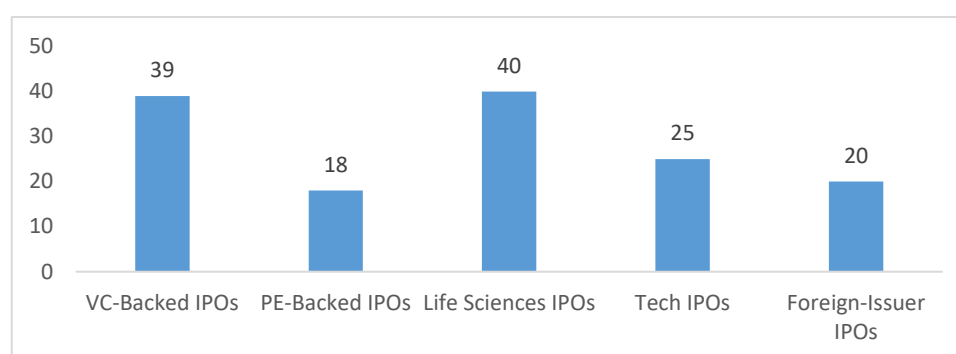
4.2.2 Reviewing IPO Market in the USA in 2016

It had 98 IPOs in 2016 in IPO market, the second down year in row, which was 36% below the tally of 152 IPOs in 2015. In the 12-year period preceding 2015, there was an annual average of 138 IPOs, there were only three years in which IPO totals failed to reach the 100-IPO threshold. The year started slowly, with the first quarter producing only eight IPOs, but the pace of new offerings subsequently improved and steadied, with the succeeding three quarters producing 30, 31 and 29 IPOs, respectively.

Gross proceeds in 2016 were \$18.54 billion, which was 66% below the \$25.17 billion raised in 2015 and the lowest annual tally since the \$15.05 billion raised in 2003.

Individual components of the IPO market in 2016 show as following:

Chart 4.2 Individual components of the IPO market in 2016.



Source: <http://www.wilmerhale.com>, author

From the chart we can obviously know that the life sciences IPOs account for the majority of the whole IPO market.

IPOs by emerging growth companies (EGCs) accounted for 84% of the year's IPOs, down from 93% in 2015. Since the enactment of the JOBS Act in 2012, 85% of all IPOs have been by EGCs. In 2016, the median offering size for IPOs by EGCs was \$77.5 million, compared to \$368.6 million for IPOs by non-EGCs— both tallies representing the lowest annual levels since 2012. From 2012 to 2015, the median EGC IPO offering size was \$87.0 million, compared to \$425.5 million for non-EGC IPOs.

4.2.3 Reviewing IPO Market in the USA in 2017

As Jackie Kelley said, “US IPO activity increased in 2017 both by number of deals and proceeds. US exchanges remain the top destination for foreign companies with 24% of the US IPOs coming from around the world. A healthy pipeline continues to build, led by health care and technology companies. The result is a strong close to the year and great momentum heading into 2018.”

There were 174 IPOs raising US\$39.5 billion in the US in 2017 which was a rise of 84% in terms of proceeds and 55% by volume compared with 2016. This accounted for 11% of global deals and 21% of IPO proceeds.

Table 4.3 Cross-border IPOs

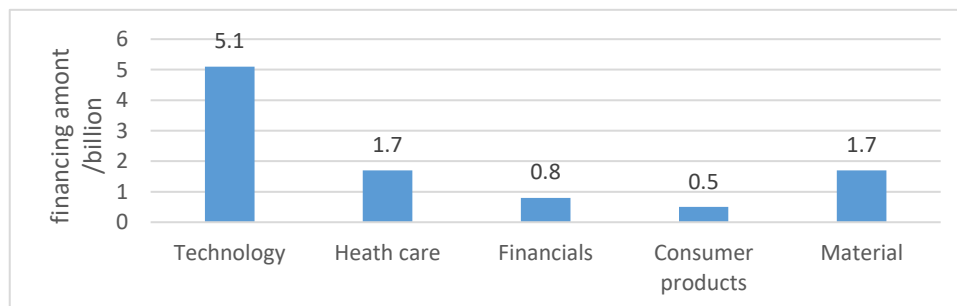
Country	IPO amount	Financing amount
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China	19	\$3.6 billion
Europe	10	\$1.8 billion
Brazil	3	\$1.4 billion
Canada	3	\$492 million
Argentina	2	\$1.5 billion
Israel	2	\$81 million
Singapore	1	\$989 million
Australia	1	\$6 million

Source: <http://www.ey.com>, author

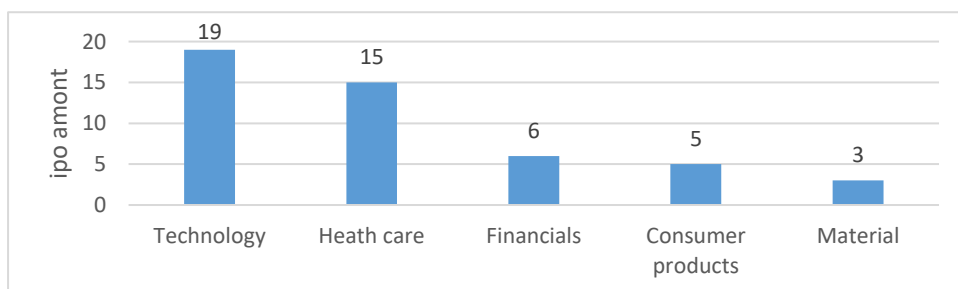
It saw the highest proportion of cross-border IPOs in 2017 since 2010, accounting for 24% of US IPOs and 25% by proceeds. Five of the top ten deals on US exchanges in 2017 were cross-border. 41% of the domestic companies on the US exchanges were financial sponsor-backed and accounted for 70% by proceeds.

Chart 4.3 Financing amount in terms of industry



Source: <http://www.ey.com>, author

Chart 4.4 IPO amounts in terms of industry



Source: <http://www.ey.com>, author

Those two charts show that technology industry accounted for the most of whole financing amounts and IPO amounts, following is the health care.

4.3 Expectations of USA's IPO Market in 2018

In 2018, there will be more and more companies expecting to go public. First of all, the economies and the global shares of IPO in Asia has been developing sharply in recent years. Some companies from American has been listed on Hong Kong and other Asian stocks exchange. In this year, many other companies are looking for forward to putting their strategy more on Asia especially in China and having much larger customer's base and potential investors in there.

Furthermore, there have been a lot of tech companies to prepare the IPO for years, such as Airbnb. Based on the good market conditions, including the company taxes are lower for them, the brilliant market valuation on those kinds of companies and they do need to find more sources of funding and liquidity. Expect of a much more active tech sector, biotech will continue to get into the market in 2018, driven by innovations in therapeutic approaches. Many large issuers are already publicly on file, including five companies that could raise over \$1 billion in the 2018.

On the one hands, The SEC has been encouraging more and more companies to go public. Such as JOBS act, it has reduced the costs of going public and decreases the requirements of the IPO. On the other hand, it has put a large number of pressures on some large and long-standing firms in traditional industries because of the technology to make them think over their strategies again, such as Disney. They will be more preferred to choose to issue IPOs rather than mergers and acquisitions of listed.

4.4 Example of IPO in the United States

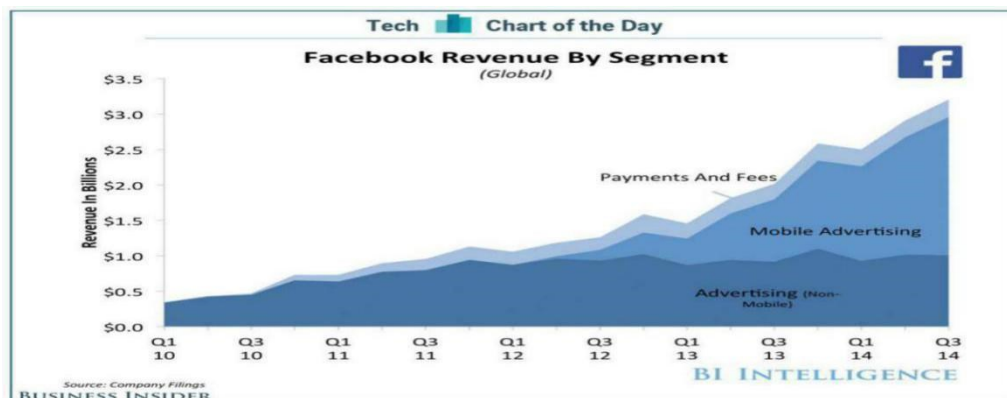
In the following, I will take the IPO of Facebook as an example to show how and why an American company chooses to go public in details.

4.4.1 Introduction of Facebook

Facebook is a US social networking service website, launched on February 4, 2004. On March 6, 2012, it launched the Windows desktop chat software Facebook Messenger. The main founder was Mark Zuckerberg. Facebook is the world's leading photo sharing site, uploading approximately 350 million photos each day as of November 2013. As of May 2012, Facebook has about 2.5 billion users. Facebook is headquartered at Hacker Way in Menlo Park. From September 11th, 2006, any user enters a valid email address and their age group to join.⁶

According to data from July 2007, Facebook has the most users among all the websites that serve college students: 34 million active users, including non-university users. From September 2006 to September 2007, the ranking of the website in the US website rose from No. 60 to No. 7. At the same time, Facebook is the number one photo sharing site in the United States, uploading 8.5 million photos a day. Top 500 World Brands in 2010: Facebook is the top one in Microsoft.

Table 4.5 Revenue by segment



Source: <http://uk.businessinsider.com>

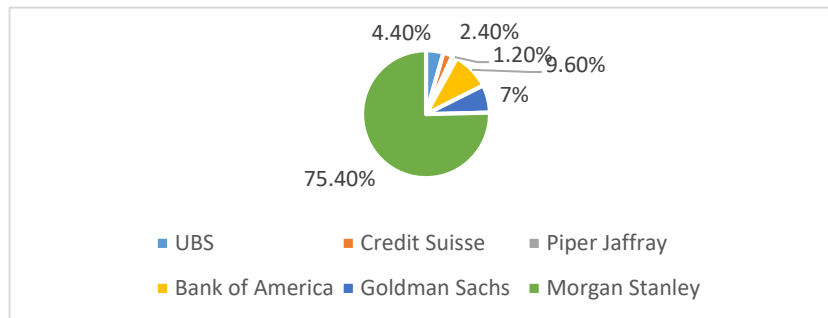
As being seen on the chart, revenues of Facebook are divided into advertising, mobile advertising and payments fees. What's more, the majority part is from mobile advertising which is accounted for 66% of the whole revenue in 2014.

⁶ Source: <https://en.wikipedia.org/wiki/Facebook>

4.4.2 IPO Process

Chose Investment Banks

Chart 4.6 Top 20 U.S internet IPO underwriters in 2011



Source: DEALOGIC, author

From the chart 4.6, we know that Morgan Stanley led the majority parts of the biggest technology IPOs in 2011 which in roughly accounted for 75%, including Google, Zynga and LinkedIn. Just for the well-done experiences Morgan Stanley have made in technology IPOs, it made Morgan Stanley won the main leading underwriters standing out among the other two top investment banks, including JP Morgan and Goldman Sachs. Besides those main three leading underwriters, Facebook also hired other 20 investment banks as underwriters, such as Citibank and Deutsche Bank.

Eric Jackson, the founder of investment company Iron Fire Capital, said: “This will be a once-in-a-century event, so the underwriters of securities will desperately join them and they need to work hard to become part of it”. As a consequence, as securities underwriters for Facebook, Morgan Stanley and other companies had a commission ratio of approximately 1.1%. This is far lower than the 7% of the usual fees for small transactions, or 2% to 3% of large transactions that tend to control.

Submitted an IPO Prospectus to the SEC

Facebook filed for an initial public offering on February 1, 2012 by filing their S-1 document with the Securities and Exchange Commission. After 4 times developments of the documents, including revising earnings estimates, lower than expected price, more offers offered and so on.

Facebook was going to offer 337 million shares at the price of \$38 per share and

aimed at financing \$16 billion. And it was expected to have the market capitalization around \$81 billion on IPO day at price of \$38 per share.

Roadshow

In May 7, 2012, Facebook was officially kicking off its IPO roadshow in New York City. Facebook went to eight cities across the country, from Boston to Denver. In this process, Facebook used the unusual ways to conduct its roadshow.

In this roadshow, Facebook used a video within 30 minutes. This was not just a normal PowerPoint slide, but it was more like a half hour jazz piece in the company's history. It had high product value and soundtrack. It seemed like it was designed for people who knew nothing about the way Facebook worked. It played longer than television news programs, not only selling the vision of a single company, but also had the grand idea that social connectivity was the future of companies in the global market. Another unusual point is Zuckerberg Mark wore his trademark "Hoodie" in the roadshow.

Pricing

Before the IPO, Facebook's valuation rose steadily. In early May, the company's goal was to value from \$28 to \$35 per share. On May 14, it increased its target from 34 to 38 dollars. Due to strong demand, especially from retail investors, it suggested that Facebook might choose a higher issue price. In the end, the underwriters priced at \$38 per share as the top of the target range. This price valued the company's \$104 billion, which was the largest valuation of a newly listed company. On May 16, two days before the IPO, Facebook announced that due to high demand, it would sell 25% more shares than planned and this meant the offering reached 421 million shares.

Successfully Landed on NASDAQ

The transaction should begin on Friday, May 18, 2012 at 11:00 a.m. However, due to technical issues on the NASDAQ Stock Exchange, the transaction was delayed until 11:30 a.m. The first trade came in at \$45 per share. The closing price was \$38.23, which was only \$0.23 higher than the IPO price and \$3.82 lower than the opening price.

4.4.3 Evaluation of Facebook's IPO

On the day of the Facebook IPO transaction, there was a problem with NASDAQ's system, which delayed the trading time of Facebook shares by half an hour. In the nearly three hours that followed, the NASDAQ OMX Group failed to send order confirmation information to the broker, creating uncertainty about how many positions the broker holds.

Despite technical problems and a relatively low closing price, the stock set a new record for IPO (460 million shares) trading volume. The IPO also ultimately raised \$16 billion, becoming the third largest in US history (after AT&T Wireless, second only to General Motors and Visa). The stock price made the company's market capitalization higher than all companies except a few American companies, surpass Amazon, McDonald's, Disney and Kraft Foods and other heavyweight stocks.

Chart 4.7 Facebook's stock prices in five years after IPO



Source: Yahoo Finance

From the table above, we can know though the performance of the IPO was not optimistic, five years increasing stock prices prove Facebook is a potential and strong company. In April 23, 2018, the stock's closing price of Facebook was \$159.69 which was a huge increasing from \$45 in the IPO day. However, in recently, affected by the data scandal, as of March 25, 2018, Facebook's share price had fallen by 13.89%, and

the market value had evaporated about 75 billion US dollars this week.

5 Comparison of Selected Markets

In this chapter, you will see the comparison of the selected markets in China and U.S. in two aspects. On the macro level, I will compare the development of the two markets in the past three years. Microscopically, I will compare the two IPOs' difference from some key statistics. Meanwhile, I will also analyze the requirements and IPO process from the similarities and differences between the two markets.

5.1 Comparison of IPO between Alibaba and Facebook

Table 5.1 Comparison of stock price in specified time and the percentage of changes from IPO day

Time	Alibaba	Changes	Facebook	Changes
IPO day	\$68		\$38	
1M after IPO	\$98.6	45%	\$31.1	-18.16%
3M after IPO	\$103.94	52.9%	\$18.06	-52.47%
6M after IPO	\$83.24	22.4%	\$28	-26.31%
1Y after IPO	\$58.97	-13.3%	\$24.35	-35.92%
3Y after IPO	\$172.71	153.96%	\$79.19	108.39%
3.5Y after IPO	\$186.14	173.74%	\$89.43	135.34%

Source: Yahoo Finance, author

From the above table, we can know the price changes from Alibaba and Facebook. On the one hand, we can know that Alibaba's stock prices are approximately increasing from the IPO day to 3.5 years after IPO day. However, it still has the decreasing price in one year after IPO day, it decreased by 13.3% compared to the issuing price. As for Facebook, even though after one year from IPO day, its stock prices are still lower than the issuing price. But in the following years, Facebook's stock performed very well, till 3.5 years after IPO, it hit the height of 135.34% over the first price. On the other hand, both two stocks, within the release date and following specified time, share prices have

risen by a big margin especially the Facebook's.

Table 5.2 Some key data of Alibaba and Facebook (\$)

Alibaba		Facebook	
IPO insurance price in 2014	\$68	IPO price in 2012	\$38
Opening price in 2014	\$92.7	Opening price in 2012	\$42.05
Closing price in 2014	\$93.89	Close price in 2012	\$38.23
P/E ratio in April 23, 2018	\$41.62	P/E ratio in April 23, 2018	\$29.63
Market value in April 23, 2018	\$437.337 billion	Market value in April 23, 2018	\$462.999 billion
Volatility (variance; T=45)	12.12	Volatility (variance; T=45)	8.98
Total yield (HPR from 2014 to 2018)	173.74%	Total yield (HPR from 2014 to 2018)	135.34%

Source: Yahoo Finance, author

When Alibaba was listed, it created a history of US largest share with \$2.5 billion. When Facebook was listed, it became the third-largest share in U.S. history with \$1.6 billion. Both of them had a great grade in the financing amounts. However, in some details, the performance of Facebook and Alibaba is different. In the IPO day, Alibaba's IPO price was \$92.7 per share when it was opening and the highest over that day was \$93.89 per share. As for Facebook, the IPO price was \$42.05 per share but when it was closed, the stock price decreased to \$38.23 per share. It can say that Alibaba's first day is more surprising than the Facebook's. According to the table, we can clearly know, in April 23, 2018, according to statistics, Alibaba's market value reached \$437.337 billion, while Facebook's market value reached \$462.999 billion. As for the volatility of two stocks, we have known that the higher the variance, higher fluctuation the stock is. So, according to the calculations of two stocks for last five years, we know that the Facebook's stock is less fluctuated than Alibaba's. But for the holding period return for last four years, we can see if you hold shares of Alibaba, your stocks are

173.74% valuable than four years ago. If you hold shares of Facebook, you will get more value about 135.54% over than the shares you bought four years ago.

Chart5.1 Stock price from 2012 to 2018



Source: Yahoo Finance

From the chart above, we can clearly see that the tendency of two stocks is increasing approximately. But the difference is Facebook's stock price is still higher than Alibaba's. However, in 2018, they may hit the same level.

5.2 Comparison of IPO markets in China and USA in Last Three Years

Chart5.2 Compare the IPO amount between two countries for last three years



Source: Securities Regulatory Commissioner, The Statistics Portal, author

On the overall sight, in the last three years, it can say that IPO market in financial industry was developing faster and more stable than the market in USA. In more details, deals amount of IPO was in a continuing tendency in China, and it was 219 IPOs, 272 IPOs and 436 IPOs in three years. However, in USA, the changes of IPO amount were fluctuated, and it was 179 IPOs, 105 IPOs and 160 IPOs.

Even though the stability in Chinese financial market, USA's financial market is still strong and large scale. As for the analysis of the largest IPO in the world, majority

of the companies are from American and landed on NYSE or NASDAQ, such as Facebook and American International Assurance. Though, Alibaba's IPO hit the historical highest record in 2014, it was landed on NYSE not in Hong Kong stock exchange, it might be a great pity for Hong Kong stock exchange.

In terms of the industry of IPO, it is different in two markets. In China, in terms of the industry by quantity, the manufactory industry was still in the dominated position, following the financial industry consumer industry and technology, media and telecommunications industries. However, the tendency of manufactory industry was decreasing and technology, media and telecommunications industries were increasing. In USA, the health care industry was firstly in the top one place, following by the technology industry. But in the next two years, the technology industry had surpassed the health care industry.

In terms of the industry by financing amount, in China, financial service industry was still in the dominated place in the whole IPOs, and it has the increasing tendency in 2018 even in the following years. In USA, technology industry had surpassed the health care industry. And technology industry also has the increasing tendency in the following years.

There are also some same points over the two markets. Firstly, even though the US IPO market has grown slowly in recent years, due to its mature financial markets and institutions, and a large amount of free capital, the US market has become a place where many overseas companies choose to go public. For China, as the capital market continues to improve and the economy continues to develop steadily, the Chinese financial market, especially Hong Kong's capital market, has become a new and growing overseas listing market for many foreign companies. Secondly, both markets are expected to grow in the future, and the IPO market will have new breakthroughs in 2018. What's more, technology IPOs will account for a very important part in 2018.

5.3 Comparison of IPO of HKEx and NASDAQ

Because of the importance of stock exchange in the financial market, it's

necessary to talk about the comparison about the stock exchange in two countries. According to the analysis from previous chapters, we can have the point that Hong Kong stock exchange and NASDAQ though are not the biggest one compared to the mainland market and NYSE, both of them developed fast and issued large number of the whole IPO. As a consequence, I take those two stock exchanges within two countries as examples.

Firstly, I will briefly introduce the Hong Kong stock exchange and NASDAQ. Next, I will compare the requirements and IPO process within two stock exchange.

5.3.1 Brief Introduction of Hong Kong Stock Exchange

Hong Kong Exchanges and Clearing Limited is a major global exchange group and a Hong Kong-listed company. The holding company has operational exchanges in Hong Kong and London. Its members include The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited, Hong Kong Securities Clearing Company Limited, The Stock Exchange of Hong Kong Limited Clearing House Limited and Hong Kong Futures Clearing Limited. The company also includes the London Metal Exchange, the world's premier base metal market.

In recent years, IPO market in Hong Kong has been developing quickly and it can also say that HKEX takes a top position among the global new stock markets. Due to the high vitality of the Hong Kong market, it has brought immense vitality to the entire Hong Kong and even the Mainland market and has also strengthened the connection between China and the world.

In 2017, the Hong Kong stock market launched the most significant listing reform in recent years. Two new chapters will be added to the “Main Board Rules” to facilitate the listing of emerging industries and innovative companies in Hong Kong. This is a change made by Hong Kong with the times under the circumstances in which the new economy leads the development and forms an investment depression. After the completion of the reform, Hong Kong can provide richer choices for listed companies

and investors to enable the market to capture the next generation of opportunities and become more dynamic; enhance the global competitiveness of Hong Kong as an international financial center.

5.3.2 Brief Introduction of NASDAQ

NASDAQ was created by the National Association of Securities Dealers in order to regulate disorderly over-the-counter transactions and provide financing platforms for small businesses on February 8, 1971. In 1972, it was called "National Association of Securities Dealers Automated Quotations." The abbreviation "NASDAQ" was separated from the series of transactions in 2000 and 2001 to establish NASDAQ. Owned and operated by the NASDAQ OMX Group, its stock was listed on its stock exchange on July 2, 2002 under the symbol NASDAQ.⁷

NASDAQ is characterized by the collection and publication of securities dealer quotes for non-listed stocks that are traded over-the-counter. It has now become the world's second largest stock exchange market. With more than 5,400 listed companies in total, NASDAQ's listed companies cover all high-tech industries, including software, computers, telecommunications, biotechnology, retail and wholesale trade. NASDAQ is the world's first e-commerce and global-oriented stock market.

5.3.3 Comparison of the IPO Requirements within HKEX and NASDAQ.

There are three ways for the company listed on Hong Kong stock exchange, including H-share model, Red chip model and overseas non-state-owned enterprises. It also includes mainboard and GEM, both of two boards have different requirements for IPO. The NASDAQ Stock Market includes two separate markets: NASDAQ National Market and NASDAQ Small Cap Market. NASDAQ Small Cap Market is a market for

⁷ Source: <https://en.wikipedia.org/wiki/NASDAQ>

growth companies and the NASDAQ Small Capital Market has more than 1,700 stocks listed. Therefore, I will mainly compare the requirements of the listing in the NASDAQ Small Cap Market and the Hong Kong Stock Exchange's main board market.

Table5.3 Compare the requirements within the two stock exchanges

	NSCM	Main board in HKEx
Number of shareholders	300	At least 100
Market capitalization at listing	50 million US dollars	4 billion Hong Kong dollars
Public float	1 million shares	50 million Hong Kong dollars
Profit requirements	Net income before tax over \$750,000 in the last year before	Total profit of HK\$50 million over the past three years
Listing fees	\$100000-\$150000	150000-650000 Hong Kong dollars

Source: <http://wiki.mbalib.com/wiki>, author

From the table above, the requirements of IPO from the two stock exchanges have several main differences. It needs 300 shareholders in NSCM but it only needs at least 100 shareholders in HKEX. On the day before being listed, the market capitalization of the company should be 50 million US dollars in NSCM, and it should be 10 million Hong Kong dollars in HKEX. Before the company is listed on the stock exchange, it should have over \$750,000 net income before tax in the last year before IPO year in NSCM, but in HKEX, the company needs to have HK\$50 million over the past three years. Both stock exchanges have different requirements for the domestic and foreign companies, and the requirements for the foreign company are not strict as the domestic.

5.3.4 Comparison of the IPO Process within NASDAQ and HKEX.

I have talked about the IPO process in the previous chapters. Though different

markets have different conditions, the whole process in two stock exchanges are roughly the same, only some of the details are different according to the timeline. According to report issued by E&Y (*IPO insight*), I conclude several key steps in the IPO process to show the differences between two stock exchanges.⁸

Firstly, in NASDAQ, on 12-24 months before admission, the company needs to choose sponsors, non-executive directors, accountants to audit the financial statements for the track record period and other advisers. Meanwhile, the company needs to undertake the reorganization of the corporate for listing requirements. However, in HKEX, the company should overtake those works on 6-12 months before admission.

Secondly, in HKEX, on 4-6 months before admission, the company has to work with the investment banks to go through the business and legal due diligence and then develop and initiate a plan for HKEX Listing Rules compliance. On the one hand, it should hold first drafting meetings to produce draft prospectus and other documents. On the other hand, it should settle down the pricing issues, do property valuation with financial valuation model and make profit forecast and cash flow forecast. Lastly, submit listing application form to the exchange. In NASDAQ, the company needs to complete those work on 2–4 months before admission

Thirdly, in HK, it has up to 30 days for the underwriters to exercise of “Green shoe” over-allotment option. Then, auditors issue comfort letter in connection with the execution of the over-allotment option. But, it can be up to 30–60 days post-offering in this part in MASDAQ.

5.4 Summary

In this section, I have compared the IPO details between Alibaba and Facebook. We could know that Alibaba’s IPO performance was much better than Facebook’s, but the stock prices are lagged behind Facebook’s in recent years. Then, I compared the market situations between two countries, it showed us that China’s financial market

⁸ Source: the requirements are partly according to the document released by E&Y (IPO Sight).

developed stable and faster than in U.S. Though Hong Kong stock exchanges and NASDAQ had majority similarities in requirements and IPO processes, there were still several differences within them. Both of them had different requirements for the overseas and domestic companies. Meanwhile, according to the different demands from different sizes of companies, Hong Kong stock exchange and NASDAQ also set different requirements for them.

In 2017, the number of new listed companies in Hong Kong stocks reached a record high, reaching 174. And the amount of capital raised ranked third in the world, reaching more than HK\$120 billion. The total market value of the securities market hit a record high on the last trading day of last year and recorded approximately HK\$34 trillion. According to all of those data and analysis, we can briefly know that HKEX not only plays an important role in China but also in the world.

6 Conclusion

The objective of this thesis is to describe the IPO in two different countries and to compare them. Through analysis and comparison of the IPO situations in recent three years within two IPO markets, we can conclude that China's IPO market is developing more stable and faster than the U.S.IPO market. Even though, the United States remains the most attractive capital market. Many overseas companies choose to list on the NYSE or NASDAQ. However, the Chinese market is also undergoing rapid and comprehensive development. In particular, the Hong Kong capital market is increasingly favored by overseas companies. Meanwhile, with the gradual maturity and stability of China's economic environment, more and more overseas companies have chosen to list on the Hong Kong Stock Exchange. Hong Kong Exchanges has also established one after another transaction record under its own reform and development. The Hong Kong Stock Exchange, as well as becoming a global multi-asset class exchange, plays an important role in the financial markets of China and even the world.

IPO is an important and fundamental step for the company to go public. As a consequence, company should consider whether you prepare well for all aspects of the requirements.

The trend of internationalization is irresistible. China is also accelerating the pace of integration with the international community, such as perfecting the financial system and maintaining the stability of the financial market. Hong Kong Stock Exchange missed the case of Alibaba's oversized IPO in 2012 which can be seen that China's securities market can still have higher development space. I hope that China's financial market can learn from more advanced and mutual financial markets in the world, such as the United States.

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List of Abbreviations

IPO: Initial Public Offering

CSRC: China Securities Regulatory Commission

NYSE: New York Stock Exchange

SEC: Security and Exchange Commission

HKEX: Hong Kong Stock Exchange

NASDAQ: National Association of Securities Dealers Automated Quotations

GEB: Growth Enterprise Board

SME board: Small and Medium Enterprise Board

OTC: Over the Counter

HPR: Holding Period Return

EPS: Earnings Per Share.

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List of Annexes

Annex1 Listing Requirements for GEM on HKEX

Annex2 Listing Requirements for Capital Market on NASDAQ

Annex3 NASDAQ's own advantages

Annex1 Listing Requirements for GEM on HKEX⁹

Listing requirements	Growth Enterprise Market on HK
Track record	<ul style="list-style-type: none"> • More than two financial years; • The company must under the same management in these two financial years and until the listing time and ownership continuity and control throughout the two financial years.
Market capitalization	<ul style="list-style-type: none"> • No requirement on profit; • In these two financial years, it should have positive cash flow at least HK\$20 million from operating activities; • At listing time, market capitalization should be at least HK\$100million
Minimum public float	<ul style="list-style-type: none"> • At listing time, it should be HK\$30million market capitalization held by the public; • At least 25% of the total issued capital.
Future prospectus	The statement of business objectives should cover the financing years of the listing and latter two years.
Accounting standards	<ul style="list-style-type: none"> • Financial statements should follow the requirements of Hong Kong Financial Reporting Standards; • At least cover two financial years; • The last financial period should be more than six months earlier before deliver the documents.
Corporate governance	<ul style="list-style-type: none"> • It should organize at least three independent non-executive directors; • Compliance officer and compliance advisor.
Restrictions on controlling	<ul style="list-style-type: none"> • Controlling shareholders means who have over 30% of the

⁹Source:<http://en-rules.hkex.com.hk/en/display>;<https://www.charltonslaw.com/hong-kong-law>

shareholders	<p>new issuance;</p> <ul style="list-style-type: none"> • They should hold the shares of new offering over six months.
Numbers of shareholders	<ul style="list-style-type: none"> • At least 100 shareholders; • No more than 50% of shares hold by three main public shareholders.
Authorized representatives	<ul style="list-style-type: none"> • It should have 2 authorized representatives from the issuer's executive directors and company secretary.
Sponsors	<ul style="list-style-type: none"> • If it has only one sponsor, the sponsor should be independent from the company; • If the sponsors have two or more, at least one of them should be independent from the company, and one of them should make the channel to communicate with the stock exchange.
Additional requirements	<p>The listed company can't issue new shares during six months after listing time.</p>

Annex2 Listing Requirements for Capital Market on NASDAQ¹⁰

Requirements	Income standards 5405 (a) and 5405(b) (1)	Equity standards 5405 (a) and 5405(b) (2)	Market value of listed securities standards 5405 (a) and 5405(b) (3)	Net income standards 5405 (a) and 5405(b) (4)
Pre-tax operating income (in the latest financial year or in the financial year of the last three years)	\$1 million	N/A	N/A	N/A
shareholders' equity	\$15 million	\$30 million	N/A	N/A
Market value of listed securities	N/A	N/A	\$75 million	N/A
Gross income (in the latest financial year or in the financial year of the last three years)	N/A	N/A	N/A	\$75 million
Public shares	1.1 million	1.1 million	1.1 million	1.1 million
Public stock	\$8 million	\$18 million	\$20 million	\$20 million

¹⁰ Source: <https://listingcenter.nasdaq.com/assets/initialguide.pdf>

market value				
Stock price in listing	\$4	\$4	\$4	\$4
Number of shareholders	400	400	400	400
Market makers	3	3	4	4

Annex3 NASDAQ's own advantages

1. NASDAQ implement two different standard systems in the NASDAQ national market and the small capital market. Generally, larger companies are trading on the national market; smaller emerging companies are trading in small capital markets with less demanding. But the SEC has no difference in the regulatory scope of the two markets.
2. The trading system NASDAQ has a strong strength in the market technology. It uses the efficient "ECNs", which makes the management and operation of NASDAQ low and efficient, at the same time, it also increases the openness, liquidity and effectiveness of the market.
3. NASDAQ has its own Market Maker. The creator is an independent stock trader to buy and sell a stock for investors. This institutional arrangement is particularly important for those with lower market capitalization and less trading. These market makers include Merrill Lynch, Goldman Sachs, Solomon brothers and other world-class investment banks. NASDAQ is now increasingly trying to make the stock of listed companies able to deal at the best price through this market maker system, while protecting the interests of investors.